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APPLICATION OF SOUTHWESTERN	§	PUBLIC UTILITY COMMISSION
ELECTRIC POWER COMPANY FOR	§	
AUTHORITY TO CHANGE RATES	§	OF TEXAS

ORDER

This Order addresses the application of Southwestern Electric Power Company (SWEPCO) for authority to change its rates. Through its application and rebuttal testimony, SWEPCO sought a Texas retail revenue requirement of \$451,529,538.

A hearing on the merits was held between May 19 and May 26, 2021 at the State Office of Administrative Hearings (SOAH). On August 27, 2021, the SOAH administrative law judges (ALJs) filed their proposal for decision in which they recommended a Texas retail revenue requirement decrease to SWEPCO's Texas retail revenue requirement of \$26,495,690. In response to the parties' exceptions and replies to the proposal for decision, on November 9, 2021, the SOAH ALJs filed a letter making changes to the proposal for decision.

The Commission adopts the proposal for decision as modified by the ALJs, including findings of fact and conclusions of law, to the extent provided in this Order.

I. Discussion

The Commission's decisions result in a Texas retail base-rate revenue requirement of \$400,742,913, which is a decrease of \$50,786,625 from SWEPCO's requested Commission-authorized revenue requirement. New findings of fact 24A-I and 315A-C are added to address the procedural history of this docket after the close of the evidentiary record at SOAH. Additionally, the Commission modifies finding of fact 286 to reflect the rate schedules produced by Commission Staff's updated number run.

A. Self-Insurance Reserve and Hurricane Laura Costs

The Commission disagrees with the SOAH ALJs' finding that SWEPCO failed to sufficiently quantify the amount of savings of the self-insurance in comparison to commercial insurance to support establishment of a self-insurance reserve. In this proceeding SWEPCO presented adequate testimony on cost savings attributable to the self-insurance plan. While

SWEPCO did not quantify the precise savings associated with its self-insurance proposal, it did offer a detailed assessment of the expenses SWEPCO would avoid through the plan. Therefore, the Commission rejects the proposal for decision and approves the self-insurance reserve plan proposed by SWEPCO.

SWEPCO also requested authorization to charge its Texas jurisdictional Hurricane Laura restoration costs against the self-insurance reserve discussed above. Because the Commission approves SWEPCO's proposed self-insurance reserve plan it also approves the charging of Hurricane Laura restoration costs against the self-insurance reserve. To reflect these determinations, the Commission modifies findings of fact 96 and adds new finding of fact 96A. The Commission also modifies conclusion of law 30.

B. Return on Equity

The SOAH ALJs recommended a return on equity of 9.45%. After consideration of the evidence and expert witness testimony the Commission finds that a return on equity of 9.25% is appropriate. Market conditions indicate electric utilities continue to enjoy favorable access to capital financing in the form of short- and long-term interest rates, while electric utility returns on equity have continued to decrease since SWEPCO's last rate case in 2017. Furthermore, in establishing a reasonable return on invested capital, PURA¹ § 36.052 provides the Commission authority to consider the efforts of the utility in conserving resources; the quality of service; the efficiency of operations; and the quality of management. SWEPCO has continued to increase its vegetation management expenses but its system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) scores have worsened since 2018 which is indicative of periodically unreliable service quality and substandard operational planning. Therefore, the Commission deletes finding of fact 101 and modifies findings of fact 97, 98, 100, and 105.

C. Vegetation Management

Due to SWEPCO's service quality record and vegetation management deficiencies, Commission Staff recommended that SWEPCO be required to hire a consultant to conduct a review of the transmission system and make recommendations to improve performance. While

¹ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001–66.016 (PURA).

the SOAH ALJs did not recommend the hiring of an independent consultant, they did remark that SWEPCO's worsening SAIFI and SAIDI scores are troubling. The Commission finds that SWEPCO should be required to include additional information as part of its annual reports filed under 16 Texas Administrative Code (TAC) § 25.97(f). The additional information should include each occurrence of an outage related to vegetation contact with utility infrastructure and, for each line identified, the length of time since that line last received vegetation management treatment. Finally, the information should identify every distribution line that has not received vegetation management treatment in the previous four years. Therefore, the Commission deletes finding of fact 123 and adds finding of fact 123A.

D. Financial Integrity and Ring-Fencing

SWEPCO is just one of many American Electric Power Company, Inc. (AEP) subsidiaries. AEP and its various subsidiaries engage in a range of activities related to electricity production, delivery, and service across the country. Commission Staff recommended imposing 15 ring-fencing provisions for SWEPCO as part of this proceeding. Recognizing that the financial instability of an affiliate entity could impact SWEPCO, the SOAH ALJs ultimately recommended that 11 of the provisions be adopted in consideration of the demonstrated value of ring-fencing protections. After reviewing the record and parties' briefs, the Commission finds that two additional provisions should be implemented to insulate customers' rates from any financial instabilities of its parent company, AEP, and AEP's other subsidiaries. The Commission requires the additional ring-fencing provisions, of a no cross-default provision and a no financial covenants or rating agency triggers related to another entity provision. Accordingly, the Commission adds new finding of fact 109A.

E. Allocated Transmission Expenses Related to Behind-the-Meter Generation

The SOAH ALJs recommended removal of 146 megawatts (MW) of Eastman's behind-the-meter generation (BTMG) load that SWEPCO added to its Texas jurisdiction for allocation purposes. The Commission ultimately agrees with the SOAH ALJs' conclusion however it determined that specific discussion on federal jurisdiction and the filed-rate doctrine were unnecessary. Therefore, the Commission modifies the proposal for decision to remove findings of fact 209 through 212, as well as conclusions of law 34 through 37, because those findings and conclusions are unnecessary to support this Order.

F. Texas Cotton Gin Association Class Allocation

The SOAH ALJs recommended that the Texas Cotton Gin Association did not present an alternative class allocation or rate design proposal, and therefore did not make any rate adjustment in response to the Texas Cotton Gin Association's assertions. As Commission Staff correctly notes, the allocation of costs based on system wide rates is consistent with prior Commission precedent. Therefore, the Commission deletes finding of fact 251 from the proposal for decision as unnecessary to support this Order.

G. Minor or Non-Substantive Changes

In addition to the changes described above, the Commission makes several minor modifications or corrections to the proposed findings of fact and conclusions of law.

Finally, the Commission makes non-substantive changes to findings of fact and conclusions of law for such matters as capitalization, spelling, punctuation, style, grammar, readability, and conformity with the Commission's order writing format.

II. Findings of Fact

The Commission adopts the following findings of fact.

Applicant

1. SWEPCO is a wholly owned subsidiary of American Electric Power Company, Inc. (AEP) and is a fully integrated electric utility serving retail and wholesale customers in Texas, Louisiana, and Arkansas.
2. SWEPCO serves approximately 187,400 Texas retail customers, all of whom are affected by SWEPCO's application to change rates.
3. The Federal Energy Regulatory Commission (FERC) regulates SWEPCO's wholesale electric operations.
4. On October 14, 2020, SWEPCO filed its petition and statement of intent requesting that the Commission authorize SWEPCO to increase its Texas retail base rate revenue by \$90,199,736, which is an increase of 26.03% over its adjusted Texas retail test-year base-rate revenues exclusive of fuel and rider revenues. The overall impact of the proposed

revenue requirement increase, considering both fuel and non-fuel revenues, is a 15.57% increase.

5. SWEPCO employed the 12-month period ending March 31, 2020, as its historical test year.
6. SWEPCO's proposed rate increase reflects incremental investment in generation since its last test year and incremental investment in transmission and distribution since SWEPCO last modified its transmission cost recovery factor (TCRF) and distribution cost factor (DCRF).
7. SWEPCO proposes revisions to many of its rate schedules and riders, requests that the Commission set SWEPCO's TCRF and DCRF to zero and establish the baseline values consisting of the inputs to the calculations that will be used to calculate SWEPCO's TCRF and DCRF in future proceedings.
8. Additionally, SWEPCO has announced the early retirement of its Dolet Hills Power Plant as of December 31, 2021. As a result, SWEPCO proposes rate treatments to address this early retirement.
9. SWEPCO requests an increase of \$5 million over test year costs to expand its distribution vegetation management program.
10. SWEPCO also requests that the Commission approve certain policy-oriented proposals, including the establishment of a self-insurance reserve, deferred recovery of Hurricane Laura restoration cost, and certain charges billed to SWEPCO by the Southwest Power Pool (SPP).
11. SWEPCO provided notice of its application by publication for four consecutive weeks in newspapers having general circulation in each county of SWEPCO's Texas service territory. Individual notice of its proposed rate change was provided to all its retail customers by bill inserts and direct mailing. SWEPCO timely served notice of its statement of intent to change rates on all municipalities retaining original jurisdiction over its rates and services. Additionally, SWEPCO electronically provided notice to Commission Staff, the Office of Public Utility Counsel, and legal representatives of all parties to SWEPCO's most recent base case, Docket No 46449.

12. The following intervening parties participated in this docket: the Office of Public Utility Counsel; Cities Advocating Reasonable Deregulation (CARD); Eastman Chemical Company; Texas Industrial Energy Consumers; Nucor Steel-Longview; Texas Cotton Ginners Association; Northeast Texas Electric Cooperative, Inc. and East Texas Electric Cooperative, Inc.; Sierra Club and Dr. Lawrence Brough (Sierra Club); East Texas Salt Water Disposal Company (ETSWD) and East Texas Oil and Gas Producers; and Walmart Inc. Commission Staff also participated in this docket.
13. On October 30, 2020, the Commission referred this case to SOAH.
14. On November 19, 2020, SWEPCO filed an agreed motion to adopt procedural schedule in which it agreed to extend the statutory deadline to October 27, 2021.
15. On December 17, 2020, the Commission filed its preliminary order identifying the issues to be addressed in this proceeding.
16. In SOAH Order No. 2 filed on November 23, 2020, the SOAH ALJs set the hearing on the merits for May 19-28, 2021.
17. Collectively, the Commission's preliminary order and SOAH Order No. 2 include a statement of the time, place, and nature of the hearing; a statement of the legal authority and jurisdiction under which the hearing is to be held; a reference to the particular sections of the statutes and rules involved; and either a short, plain statement of the factual matters asserted, or an attachment that incorporates the reference by factual matters asserted in the complaint or petition filed with the state agency.
18. SWEPCO timely filed with the Commission petitions for review of rate ordinances of the municipalities exercising original jurisdiction within its service territory. All such appeals were consolidated for determination in this proceeding.
19. The hearing on the merits commenced before four SOAH ALJs on May 19, 2021 and concluded on May 26, 2021.
20. The parties submitted initial post-hearing briefs on June 17, 2021, and reply briefs on July 1, 2021. Proposed findings of fact, conclusions of law, and ordering paragraphs were filed July 1, 2021, and the record closed on that date.

21. In accordance with Order No. 13, SWEPCO and CARD filed final rate-case-expense reports on July 6, 2021.
22. On July 20, 2021, Commission Staff filed its final supplemental direct testimony regarding rate-case expenses.
23. On July 27, 2021, SWEPCO filed its final supplemental rebuttal testimony on rate-case expenses, and CARD filed a statement of position on its final requested rate-case expenses.
24. The ALJs filed a proposal for decision in this docket on August 27, 2021.
- 24A. The ALJs filed a revised schedule D, originally attached to the proposal for decision, on August 31, 2021.
- 24B. Parties filed exceptions to the proposal for decision by October 7, 2021.
- 24E. On October 26, 2021, SWEPCO filed a letter agreeing to extend the statutory deadline in this case to December 9, 2021.
- 24F. Parties filed replies to exceptions by October 28, 2021.
- 24G. On November 9, 2021, the SOAH ALJs filed their response to the exceptions and replies and made certain modifications and clarifications to the proposal for decision.
- 24H. On December 7, 2021, Commission Staff filed its number run with updated rate schedules for SWEPCO based on the Commission's November 18, 2021 open meeting discussion.
- 24I. Commission Staff filed supplemental corrections to its number run on December 13 and December 21, 2021.

Rate Base and Invested Capital

Generation, Transmission, and Distribution Capital Investment

25. SWEPCO has invested approximately \$636.7 million in its transmission system since the end of the test year (June 30, 2016) in its last base-rate case, Docket No. 46449.
26. SWEPCO has incurred a total amount of \$143.5 million of distribution-capital investment placed in service during the period July 1, 2016, through March 31, 2020.

27. No party contested SWEPCO's transmission or distribution investment. The entirety of the transmission and distribution investment is used and useful in providing service to the public and is reasonable and necessary.

New Generation Capital Investment

28. SWEPCO regularly reviews capital projects that could provide economic, environmental, reliability, or safety-related benefits to SWEPCO's generating fleet. The first step in any capital addition evaluation is to research alternatives that may exist, and when warranted to perform cost-benefit analyses to estimate a project's value.
29. The Commission's electric utility rate filing package (RFP) for generating utilities schedule H-5.2b provides a list of every capital project with a value of greater than \$100,000 placed in service since the close of the previous rate-case test year through the end of the test year in this case. This schedule provides a description of the reason for the capital investment, including: (1) immediate personnel safety requirement, (2) regulatory safety of operations requirement, (3) regulatory commitment (not classified in (2)), (4) plant efficiency improvement, (5) new building, (6) productivity improvement, (7) reliability, (8) economic, (9) habitability, and (10) other. The schedule also indicates whether a cost-benefit analysis was done for the project, which was done for a large majority of the projects.
30. SWEPCO uses multiple processes to ensure its generation operations and maintenance (O&M) expenses are reasonable. These include the use of budget controls, the review of cost trends, and tracking of staffing levels at its power plants.
31. RFP schedule H-1.2 provides a description of the O&M expenses incurred by FERC account, by plant, for each month of the test year. RFP schedule H-3 provides historical SWEPCO generation O&M expenses, by FERC account, by year since 2015. RFP schedule H-4 provides the major O&M projects undertaken during the test year by plant.
32. Except for Sierra Club's challenges to the test-year capital and O&M spending at the Flint Creek, Welsh, and Dolet Hills plants, no party contested the prudence of SWEPCO's generation-capital investments since the end of the Docket No. 46449 test year, nor the reasonableness of the test-year O&M expenses.

33. The legally competent, credible evidence presented in this case does not show that SWEPCO's capital investment at Flint Creek, Welsh, and Dolet Hills was imprudent, or that the O&M expenses were unreasonable or unnecessary.
34. SWEPCO's capital investment placed in service since the end of the Docket No. 46449 test year, including the test year capital spending at the Flint Creek, Welsh, and Dolet Hills plants, is prudent.
35. SWEPCO's O&M expenses incurred at its generating plants during the test year, including Flint Creek, Welsh, and Dolet Hills, are a reasonable and necessary component of SWEPCO's cost of service.

Retired Gas-Fired Generating Units

36. In January 2019, SWEPCO retired Knox Lee Unit 4. Additionally, in May 2020 SWEPCO retired Knox Lee Units 2 and 3, Lieberman Unit 2, and Lone Star Unit 1.
37. In deciding to retire these units, SWEPCO considered the age and condition of the units' equipment, the significant capital investment required for them to continue operating, and their relatively high cost to generate electricity. In light of those considerations, SWEPCO determined it was in the best interest of its customers to retire the generating units. The prudence of those retirement decisions was unchallenged.
38. SWEPCO accounted for these retirements in accordance with the FERC uniform system of accounts, which requires that the book cost of the unit retired be credited to electric plant and the same book cost be charged to the accumulated provision for depreciation applicable to that property.
39. SWEPCO used method described in finding of fact 38 to account for the retirement of Lieberman Unit 1 in Docket No. 46449, although this was uncontested and thus not specifically addressed by the Commission in that docket.
40. Although 16 TAC § 25.72(c) requires SWEPCO to maintain its books and records according to the FERC uniform system of accounts, this prescribed accounting treatment does not necessarily control the treatment of the assets for ratemaking purposes.

41. In Docket No. 46449, the Commission determined that: (1) because Welsh Unit 2 was retired and no longer generating electricity, it was not used by and useful to SWEPCO in providing electric service to the public; (2) because Welsh Unit 2 was no longer used and useful, SWEPCO could not include its investments associated with the plant in its rate base and earn a return on that remaining investment; (3) allowing SWEPCO a return of, but not on, its remaining investment in Welsh Unit 2 properly balances the interests of customers and shareholders with respect to a plant that no longer provides service; and (4) the appropriate accounting treatment that results in the appropriate ratemaking treatment was to record the undepreciated balance of Welsh Unit 2 in a regulatory-asset account rather than leaving it in accumulated depreciation.
42. Consistent with the Commission's rate treatment of the retired Welsh Unit 2 in Docket No. 46449, the net book values of the retired Lieberman Unit 2, Lone Star Unit 1, and Knox Lee Units 2, 3, and 4 should be removed from rate base, to cease earning a return and be placed in a regulatory asset.
43. The regulatory asset should be amortized over the four-year period in which the rates approved in this case are expected to be in effect.

Dolet Hills

44. Dolet Hills is a lignite-fueled generating unit located southeast of Mansfield, Louisiana, and jointly owned by SWEPCO; Cleco Power, LLC; Northeast Texas Electric Cooperative, Inc.; and Oklahoma Municipal Power Authority. CLECO is the majority owner and operator of Dolet Hills.
45. Dolet Hills went into commercial operation in 1986, and its previously established useful life extends until 2046.
46. Dolet Hills is fueled by lignite mined in the same area by Dolet Hills Lignite Company (DHLC), a SWEPCO subsidiary. An equity return on DHLC and associated taxes is currently included in SWEPCO's rate base.
47. An investment in the Oxbow Mine reserves is also included in SWEPCO's rate base.

48. In early 2020, SWEPCO and CLECO determined that all economically recoverable lignite at the Dolet Hills associated mines had been depleted, that mining operations should cease, and that Dolet Hills should be retired by the end of 2021.
49. In deciding whether to retire Dolet Hills, SWEPCO evaluated mining operations and the costs of operating the plant beyond 2021. SWEPCO studied the expected total SWEPCO system cost to serve customers, comparing the scenario where Dolet Hills continues to serve customers through 2046 versus through a December 31, 2021 retirement. The study determined that the expected least-cost path for SWEPCO and its customers lay in retiring the plant.
50. No party contested the prudence of SWEPCO's decision to retire Dolet Hills at the end of 2021. The decision was prudent.
51. Dolet Hills will be retired on December 31, 2021 and will continue providing service until that time. SWEPCO plans to continue operating the plant on a seasonal basis, principally during the peak summer months, as it has done in recent years. However, the plant remains available in case called upon by SWEPCO or CLECO's respective regional transmission organizations for reliability reasons.
52. Until its retirement, output from Dolet Hills will continue to be offered into the energy market year-round, incurring expenses required to ensure the unit is available to operate when called upon.
53. Although mining operations ceased in May 2020, SWEPCO's investment in the Oxbow reserves will continue to provide service until Dolet Hills' retirement, as the plant will continue to burn previously mined lignite to generate electricity.
54. Similarly, DHLHC will continue to exist and deliver lignite to Dolet Hills, and SWEPCO will continue incurring this non-eligible fuel expense through the plant's retirement.
55. In this case, the rate year began on the relate-back date, March 18, 2021.
56. Dolet Hills, SWEPCO's Oxbow investment, and DHLHC have provided service to customers during the rate year.

57. Good cause exists to make post-test-year reductions to SWEPCO's rate base to reflect, consistent with the Commission's rate treatment of Welsh Unit 2 in Docket No. 46449, that Dolet Hills, the Oxbow investment, and DHLC will cease to provide service to SWEPCO's customers when the plant retires on December 31, 2021.
58. It is appropriate to remove all cost recovery for Dolet Hills, the Oxbow investment, and DHLC from base rates and address these issues instead in a Dolet Hills rate rider.
59. Through the Dolet Hills rate rider, SWEPCO should be permitted, with respect to the period between March 18, 2021 (the date when the rates are effective) and December 31, 2021 (the date of Dolet Hills' retirement) (the operative-plant phase of the Dolet Hills rate rider), to recover the costs ordinarily permitted for an operating generating plant, including a return on the plant's net book value (including applicable accumulated deferred federal income taxes and unused materials and supplies), depreciation, and O&M. SWEPCO should similarly be permitted to continue earning a return on the Oxbow investment and the return on equity and associated taxes for DHLC. The charges in the Dolet Hills Rate Rider should be subject to true-up to reflect an updated-net-book value of Dolet Hills after its retirement and again after the plant is closed and final demolition costs are known.
60. With respect to the period after December 31, 2021 (the post-retirement phase of the Dolet Hills rate rider), the remaining net book values of Dolet Hills should be placed in a regulatory asset to be amortized without a return. All other cost recovery for Dolet Hills, the Oxbow investment, or DHLC under the Dolet Hills rate rider should cease, as the assets will no longer be providing service.
61. SWEPCO's recovery of Dolet Hills' remaining net book value (whether through depreciation during the operative-plant phase or recovery from the regulatory asset during the post-retirement phase) should be amortized in accordance with the asset's useful life ending in 2046.
62. DELETED.
63. Amortizing these assets in accordance with Dolet Hills' useful life ending in 2046 equitably balances the interests of SWEPCO and both its current and future customers.

64. It would be inequitable to SWEPCO's current customers to accelerate SWEPCO's recovery of these assets, as SWEPCO proposes to do, through offsetting the excess accumulated deferred federal income taxes (ADFIT) SWEPCO owes to its current customers and amortizing the balance over only four years.
65. SWEPCO's calculation and use of estimated demolition costs for Dolet Hills is reasonable.

Coal and Lignite Inventories

66. SWEPCO must maintain solid fuel inventories to assure a continuous supply of coal and lignite of appropriate quality, delivered at a reasonable cost over a period of years to promote the generation of the lowest cost per kilowatt-hour (kWh) of electricity, within the constraints of safety, reliability of supply, unit design, and environmental requirements.
67. Coal and lignite deliveries must be arranged so that sufficient fuel is available at all times to provide and maintain adequate and dependable electric service for SWEPCO's customers.
68. Setting inventory levels for SWEPCO's coal power plants (Welsh, Flint Creek, and Turk) and lignite power plants (Pirkey and Dolet Hills) based on the average level of burn from the test year would negatively impact SWEPCO's ability to reliably serve the needs of its customers and SPP and expose SWEPCO's customers to reliability risk.
69. Setting coal and lignite inventory targets for SWEPCO's coal and lignite power plants based on full-load burn ensures that adequate inventory is available to provide the necessary reliability for SWEPCO customers and SPP.
70. The target coal and lignite inventory levels SWEPCO requests to include in rate base are reasonable and necessary to ensure adequately reliable service to its customers.
71. However, because Dolet Hills will be retired on December 31, 2021, and consistent with the findings regarding the appropriate rate treatment of SWEPCO's investments in that plant, the Oxbow reserves, and DHLHC, SWEPCO's lignite inventory for Dolet Hills should be removed from rate base and placed in the Dolet Hills Rate Rider; SWEPCO should recover a return on that inventory only during the operative-plant phase, and have no cost recovery for the inventory during the post-retirement phase.
72. Good cause exists to make these post-test year adjustments regarding SWEPCO's lignite inventory for Dolet Hills.

Prepaid Pension

73. SWEPCO records an additional cash investment in the pension trust fund as a prepaid pension asset in accordance with generally accepted accounting principles under Accounting Standards Codification 715-30. The prepaid pension asset is the cumulative additional pension cash contributions beyond the amount of pension cost.
74. No party has contested, and the evidence establishes, that an additional cash investment recorded as a prepaid pension asset should be included in rate base in accordance under PURA § 36.065.

NOLC ADFIT

75. SWEPCO records its stand-alone federal income tax net-operating-loss-carry-forward (NOLC) ADFIT on its books and records consistent with generally accepted accounting principles and the FERC uniform system of accounts.
76. For the period 2009 through the March 20, 2020 test year end, SWEPCO recorded a total net amount of stand-alone tax NOLC ADFIT of \$455,122,490.
77. SWEPCO does not file a separate federal income tax return, as it is a subsidiary of AEP and included in AEP's consolidated federal income tax return.
78. SWEPCO participates in the AEP Tax Allocation Agreement for allocating the consolidated income taxes for AEP and its consolidated affiliates.
79. Under the AEP tax allocation agreement, through the March 20, 2020 test year end, SWEPCO received net-cash payments of \$455,122,490 for the use of its tax net-operating losses to offset the taxable income of its affiliates on the AEP consolidated income tax return.
80. SWEPCO reflected its receipt of these tax allocation payments in its financial books and records by reducing the balance of its NOLC ADFIT to \$0.
81. SWEPCO used the tax-allocation payments to finance plant assets now in its rate base. In essence, SWEPCO exchanged its previously recorded NOLC ADFIT asset (an asset that would reduce ADFIT and therefore increase rate base) for plant assets now included in rate base.
82. Under these circumstances, SWEPCO's proposed adjustment to recognize the \$455,122,490 NOLC ADFIT again would effectively double the proper rate base impact of the NOLC ADFIT, contrary to normalization requirements.

83. Commission Staff's recommendation instead to reflect SWEPCO's book NOLC-ADFIT balance of \$0 is consistent with PURA § 36.060, prevents SWEPCO from earning a return on the same \$455,122,490 twice, and is consistent with normalization principles.

Excess ADFIT

84. The Tax Cuts and Jobs Act of 2017 reduced the corporate federal income tax rate from 35% to 21% effective January 1, 2018. This reduction, and the associated revaluation of the ADFIT balances previously recorded at 35% decreased due to the new 21% tax rate, results in excess ADFIT balances that should be returned to SWEPCO's customers.
85. The Commission determined in Docket No. 46449 that the regulatory treatment of excess deferred taxes resulting from the reduction in the federal tax rate would be addressed in SWEPCO's next base rate case. This proceeding is SWEPCO's next base rate base after Docket No. 46449.
86. In determining the amount of excess ADFIT available to its Texas customers, it is reasonable for SWEPCO to use the Texas retail allocation factor of 35.01% approved in Docket No. 46449.
87. Excess ADFIT related to differences in method and life for calculating depreciation expense for book versus tax purposes is considered to be *protected* excess ADFIT that cannot be returned to customers more rapidly than over the remaining lives of the assets that gave rise to the deferred taxes. All other excess ADFIT is considered to be *unprotected*, meaning there are no limitations on the timing or manner of returning it to customers.
88. SWEPCO began amortizing the protected excess ADFIT on January 1, 2018, by recording a provision for refund on its books as a regulatory liability related to the Texas jurisdictional portion of the excess ADFIT amortization.
89. SWEPCO should refund the balance of excess ADFIT available to return to customers (both unprotected ADFIT and accrued protected ADFIT) by first crediting the balance against any amount owed by customers because of the March 18, 2021 relate-back date in this proceeding, then refunding any excess ADFIT balance remaining over a six-month period, with carrying charges at the Commission-allowed weighted average cost of capital.
- 89A. The excess ADFIT refund should be allocated to rate classes in proportion to the amount of allocated ADFIT in the class cost of service study (CCOSS), and each rate class should receive

its full share of the refund. The application of any excess ADFIT credits against any amounts owed because of the relate-back of the rates approved in this proceeding should thus be conducted on a class-by-class basis.

90. The remaining balance of protected excess ADFIT should be returned to customers as an amortization included in rates, in a manner consistent with normalization requirements.

Accumulated Depreciation

91. SWEPCO's calculation of accumulated depreciation was not contested and is reasonable.
92. SWEPCO's adjustments to accumulated depreciation were not contested, are reasonable, and should be adopted.

Self-Insurance Reserve

93. SWEPCO requests approval of a self-insurance reserve pursuant to PURA § 36.064 and 16 TAC § 25.231(b)(1)(G).
94. SWEPCO's proposed self-insurance reserve would be funded by an annual accrual of \$1,689,700, consisting of \$799,700 to account for annual expected O&M losses from storm damage in excess of \$500,000, plus \$890,000 to build a target reserve of \$3,560,000 in four years.
95. SWEPCO further proposes to charge its Texas jurisdictional Hurricane Laura restoration costs against the self-insurance reserve.
96. SWEPCO sufficiently demonstrated that self-insurance is a lower-cost alternative than commercial insurance and that customers will receive the benefits of the self-insurance plan.
- 96A. The Commission finds that SWEPCO's proposal to charge its Texas jurisdictional Hurricane Laura restoration costs against the self-insurance reserve is reasonable and is approved.

Rate of Return

97. A return on equity (ROE) of 9.25% will allow SWEPCO a reasonable opportunity to earn a reasonable return on its invested capital.
98. A 9.25% ROE is consistent with SWEPCO's business and regulatory risk.
99. SWEPCO did not demonstrate that either a size or credit risk adjustment was appropriate in setting its ROE.

100. A downward adjustment to the ROE is not warranted for the August 18, 2019 outage on SWEPCO's transmission system, which was caused by vegetation contact with a SWEPCO transmission line.
101. DELETED.
102. SWEPCO's proposed 4.18% cost of debt is reasonable.
103. A capital structure composed of 50.63% long-term debt and 49.37% equity is reasonable in light of SWEPCO's business and regulatory risks.
104. A capital structure composed of 50.63% long-term debt and 49.37% equity will be sufficient to attract capital from investors.
105. SWEPCO's overall rate of return should be as follows:

COMPONENT	CAPITAL STRUCTURE	COST CAPITAL	OF WEIGHTED AVERAGE COST OF CAPITAL
LONG-TERM DEBT	50.63%	4.18%	2.12%
COMMON EQUITY	49.37%	9.25%	4.57%
TOTAL	100.00%		6.69%

Financial Integrity (Ring-Fencing Protections)

106. AEP is a large corporation with several subsidiaries in multiple states, including both regulated and non-regulated entities. The effects of financial instability or weakness in one of these entities could affect not only AEP as the parent company, but also its subsidiaries, including SWEPCO.
107. Ring-fencing measures have been used to protect utilities from risky corporate parents or other affiliates to protect the utility's financial integrity and to ensure the utility can continue to operate and serve its customers.

108. Ordering the following financial protections is reasonable and necessary to protect SWEPCO's financial integrity and to ensure SWEPCO's ability to provide reliable service at just and reasonable rates:
- a. SWEPCO will work to ensure that its credit ratings at Standard and Poor's and Moody's remain at or above SWEPCO's current credit ratings.
 - b. SWEPCO will notify the Commission if its credit issuer rating or corporate rating as rated by either Standard and Poor's or Moody's falls below investment-grade level.
 - c. SWEPCO will take the actions necessary to ensure the existence of a SWEPCO stand-alone credit rating.
 - d. SWEPCO will not share a credit facility with any unregulated affiliates.
 - e. SWEPCO's debt will not be secured by non-SWEPCO assets.
 - f. SWEPCO's assets will not secure the debt of AEP or its non-SWEPCO affiliates. SWEPCO's assets will not be pledged for any other entity.
 - g. SWEPCO will not hold out its credit as being available to pay the debt of any AEP affiliates.
 - h. Except for access to the utility-money pool and the use of shared assets governed by the Commission's affiliate rules, SWEPCO will not commingle its assets with those of other AEP affiliates.
 - i. SWEPCO will not transfer any material assets or facilities to any affiliates, other than a transfer that is on an arm's-length basis in accordance with the Commission's affiliate standards applicable to SWEPCO, regardless of whether such affiliate standards would apply to the particular transaction.
 - j. Without prior approval of the Commission, neither AEP nor any affiliate of AEP (excluding SWEPCO) will incur, guaranty, or pledge assets in respect of any incremental new debt that is dependent on: (1) the revenues of SWEPCO in more than a proportionate degree than the other revenues of AEP; or (2) the stock of SWEPCO. SWEPCO will not seek to recover from customers any costs incurred as a result of a bankruptcy of AEP or any of its affiliates.
109. These financial protections are similar to those agreed to by SWEPCO affiliate AEP Texas in Docket No. 49494, which were approved by the Commission. SWEPCO already abides

by most of the ring-fencing measures approved for AEP Texas and confirmed that SWEPCO is amenable to similar measures.

109A. After considering expert testimony and the evidentiary record, the Commission determined that two additional ring-fencing provisions proposed by Commission Staff are appropriate in order to insulate Texas ratepayers from business risks that do not provide ratepayer benefits:

- a. A no cross-default provision, that SWEPCO's credit agreements and indentures will not contain cross-default provisions whereby a default by AEP or its other affiliates would cause a default by SWEPCO.
- b. A no financial covenants or rating agency triggers related to another entity provision, that the financial covenants in SWEPCO's credit agreements will not be related to any entity other than SWEPCO. SWEPCO will not include in its debt or credit agreements any financial covenants or rating agency triggers related to any entity other than SWEPCO.

110. The evidence shows substantial benefit, and does not show a significant cost or harm, to ordering SWEPCO to employ the financial protections listed above.

Transmission O&M Expense

111. SWEPCO's test year transmission O&M expenses were \$46,683,319, of which \$8,636,052 were affiliate expenses.
112. SWEPCO's transmission O&M expenses were not contested by any party and are reasonable.

Transmission Expenses and Revenues under FERC-Approved Tariff

113. The SPP charges SWEPCO for the provision of transmission service to SWEPCO's customers. SWEPCO also receives payment from SPP for SPP members' use of SWEPCO's transmission facilities. These expenses and revenues are incurred and received pursuant to the FERC-approved SPP open access transmission tariff (OATT). The net amount that SWEPCO incurred under the SPP OATT during the test year is included in SWEPCO's requested cost of service in this proceeding.

Proposed Deferral of SPP Wholesale Transmission Costs

- 114. SWEPCO proposes to defer the portion of its approved transmission charges that is above or below the test-year level into a regulatory asset or liability for recovery in a future TCRF or rate case proceeding.
- 115. SWEPCO has not shown that the proposed recovery mechanism is needed here.
- 116. SWEPCO has not demonstrated that the approved transmission charges tracker is necessary for it to have a reasonable opportunity to earn a reasonable return above its necessary expenses.

Distribution O&M Expense

- 117. SWEPCO's adjusted test-year distribution O&M expenses including its own costs plus the charges from its service company affiliate, AEP Service Company, for distribution activities necessary to provide safe, reliable distribution services were \$93,656,735.
- 118. The adjusted test-year distribution O&M costs reflect the amount necessary to perform distribution functions—for example, planning, construction, operation, and maintenance of the distribution system; and implementing SWEPCO's distribution-system-asset-management programs, reliability programs, and the vegetation-management program.
- 119. SWEPCO's distribution O&M expenses are reasonable and necessary.

Distribution Vegetation Management

- 120. SWEPCO's proposal to recover distribution O&M base-rate expenses of \$14.57 million, consisting of the test-year amount of \$9.57 million and an additional amount of \$5 million, is reasonable.
- 121. The additional amount of distribution O&M expense in the amount of \$5 million is reasonable and necessary to carry forward SWEPCO's vegetation-management program to improve overall reliability on targeted circuits and decrease outages caused by trees.
- 122. SWEPCO commits to spending the entirety of the increased amount of \$5 million for distribution O&M expense solely on vegetation management.
- 123. DELETED.

123A. As part of its required annual filings under 16 TAC § 25.97(f), SWEPCO must include information on each occurrence of an outage related to vegetation contact with utility infrastructure and, for each of those instances, identify the length of time since vegetation management maintenance was most recently conducted. SWEPCO must also provide a list of every distribution line that has not received vegetation management treatment in the previous four years.

Generation O&M Expense

- 124. SWEPCO's proposed rate increase does not adjust the test year O&M expense for Dolet Hills to reflect the scheduled retirement of the plant by the end of 2021.
- 125. During the test year, SWEPCO incurred approximately \$12.5 million in non-fuel O&M expense related to its 257 MW (40.28%) ownership share of Dolet Hills.
- 126. For Dolet Hills, SWEPCO's test-year-average-monthly O&M expense level is approximately \$1.04 million per month.
- 127. After SWEPCO retires Dolet Hills at the end of 2021, SWEPCO will avoid significant non-fuel O&M expenses for operations at Dolet Hills.
- 128. The reduced utilization and ultimate retirement of Dolet Hills will result in known and measurable changes in the cost to maintain and operate the plant.
- 129. SWEPCO should recover O&M expense associated with the operation of Dolet Hills from March 18, 2021 (the relate-back date of rates in this proceeding) through December 31, 2021, at a monthly O&M expense level of \$1.04 million per month.
- 130. SWEPCO should not recover O&M expense for Dolet Hills past its retirement in December 2021.

Payroll Expenses

- 131. SWEPCO's proposed base payroll is based on the salaries of its employees for the final pay period at the end of the test year (March 2020) plus post-test year pay increases of 3.0% for merit-eligible employees and 2.5% for hourly physical and craft employees, which were implemented in April 2020 and September 2020, respectively.

132. In June and July of 2020, retirement incentive packages were offered to certain SWEPCO and AEP Service Company employees. One SWEPCO employee and 189 AEP Service Company employees accepted the retirement incentive package.
133. Commission Staff proposes an adjustment of \$544,331 in addition to SWEPCO's requested payroll adjustment based on a more recent time period, October 31, 2020, that was after the retirement incentives were offered.
134. It is appropriate to annualize SWEPCO's base payroll as of October 31, 2020, increasing SWEPCO's base payroll by \$544,300 on a total company basis and \$199,282 on a Texas retail jurisdiction basis, inclusive of the pay raise actually given by SWEPCO to its employees.
135. SWEPCO requests an increase of \$3,804,876 to the test-year payroll expense allocated from AEP Service Company, based on an annualization of the end of test year headcount and inclusion of a merit increase.
136. Commission Staff proposes an adjustment of (\$4,480,512) to the allocated AEP Service Company payroll, also based on annualization of the October 2020 AEP Service Company payroll that was after the retirement incentives were offered.
137. The impact of the retirements is reflected in Commission Staff's adjustment of \$544,331 to SWEPCO's payroll and an adjustment of (\$4,480,512) to SWEPCO's requested AEP Service Company allocated payroll.
138. SWEPCO failed to show it intended to replace the retired employees or that its employee headcount would recover or vary minimally from the test year. Rather, a material number of employees accepted the retirement package.
139. The retirement package and revised employee headcount is a material known and measurable change that merits an adjustment to payroll.
140. It is appropriate to annualize the base payroll for AEP Service Company payroll expense as of October 31, 2020, resulting in a decrease to SWEPCO's proposed base rates of \$4,480,512 on a total company basis and \$1,686,106 on a Texas retail jurisdiction basis.

Short-Term Incentive Compensation

141. SWEPCO's application excluded financial-based short-term incentive compensation expense and 50% of the financial-based funding mechanism related to its short-term incentive compensation plans.
142. SWEPCO's request to recover short-term incentive compensation expense should be adjusted to correct errors in accordance with the testimony of Commission Staff witness Ruth Stark, which SWEPCO does not oppose.
143. SWEPCO's requested short-term incentive-compensation expense, adjusted in accordance with the testimony of Commission Staff witness Ruth Stark, is approved.

Long-Term Incentive Compensation

144. SWEPCO adjusted its test year long-term incentive compensation expenses to remove the 75% of those expenses related to performance units but retained the 25% related to restricted stock units.
145. Restricted stock units are not based on financial measures and are appropriate to include in SWEPCO's rates.
146. SWEPCO's requested long-term incentive compensation expense is approved.

Severance Costs

147. In calendar years 2017 and 2018, SWEPCO incurred \$0 in direct severance costs. During the test year, SWEPCO incurred \$767,074 in direct severance costs.
148. SWEPCO's \$767,074 in direct severance costs during the test year is atypical and does not represent normal levels of direct severance costs.
149. It is appropriate to average three years of direct severance costs to calculate SWEPCO's direct allowable severance costs, which equates to \$252,033.
150. AEP Service Company allocates severance costs to SWEPCO. During the test year relative to calendar year 2017 and 2018, AEP Service Company charged severance costs to SWEPCO that increased from less than \$550,000 for the two years prior to \$1,460,876 during the test year.

151. SWEPCO's \$1,460,876 in allocated severance costs during the test year is atypical and does not represent normal levels of allocated severance costs.
152. It is appropriate to average three years of allocated severance costs to calculate SWEPCO's allowable-allocated severance costs, which equates to \$824,300.

Pension Expense

153. SWEPCO's requested cost of service pension expense reflects the costs being recorded by SWEPCO in 2020 as presented in the 2020 actuarial studies, which are the latest available actuarial studies performed by Willis Towers Watson, SWEPCO's independent actuary. SWEPCO applies the test-year actual payroll expense capital ratio to these 2020 costs to determine the pro forma level of expense to include in the cost of service. SWEPCO's requested cost of service pension expense is reasonable.

Other Post-Retirement Benefits Expense

154. SWEPCO's requested other post-employment benefits expense reflects the costs being recorded by SWEPCO in 2020 as presented in the 2020 actuarial studies, which are the latest available actuarial studies performed by Willis Towers Watson. SWEPCO's requested other post-employment benefits expense is reasonable.

Depreciation and Amortization Expense

Net Salvage/Demolition Study

155. The use of a 10% contingency factor in SWEPCO's demolition study to determine terminal-net-salvage amounts for SWEPCO's generating plants is reasonable.
156. It is reasonable for SWEPCO to escalate the terminal-net-salvage amounts in the demolition study (which are stated in year-end 2020 dollars) to the expected final retirement date of each plant using a 2.22% inflation rate from the *Livingston Survey* dated December 2019, published by the research department of the Federal Reserve Bank of Philadelphia.

Curve Life Combinations — Mass Property Accounts

157. It is reasonable to apply an S0.0-68 Iowa curve-life combination for FERC account 353, transmission station equipment.

158. It is reasonable to apply an S1.5-74 Iowa curve-life combination for FERC account 354, transmission towers and fixtures.
159. It is reasonable to apply an L1.5-49 Iowa curve -ife combination for FERC account 355, transmission poles and fixtures.
160. It is reasonable to apply an R2.0-70 Iowa curve-life combination for FERC account 356, overhead conductors and devices.
161. It is reasonable to apply an S-.5-55 Iowa curve-life combination for FERC account 364, poles, towers, and fixtures.
162. It is reasonable to apply an R4.0-80 Iowa curve-life combination for FERC account 366, underground conduit.
163. It is reasonable to apply an R3.0-46 Iowa curve-life combination for FERC account 367, underground conductor.
164. It is reasonable to apply an R3.0-59 Iowa curve-life combination for FERC account 369, services.
165. It is reasonable to apply an L0.0-15 Iowa curve-life combination for FERC account 370, meters.

Amortization Expense

166. SWEPCO's amortization expense related to an intangible asset that was fully amortized as of the end of the test year should be excluded from SWEPCO's revenue requirement.

Purchased Capacity Expense

167. During the test year, SWEPCO continued to purchase 50 MW of capacity under its long-term purchase power agreement with Louisiana Generating Company (formerly Cajun Electric Power Cooperative) (the Cajun contract). That agreement began in 1992. These capacity costs have been consistently recovered through base rates.
168. During the test year, SWEPCO purchased the product designated as operating reserve capacity under the Cajun contract and counted that capacity in SWEPCO's compliance with SPP's capacity reserve requirements. During the test year SWEPCO did not purchase any operating reserve energy under the Cajun contract.

169. The operating reserve capacity under the Cajun contract is distinguishable from regulation and operating reserve services procured in the SPP independent monitor day-ahead and real-time market.
170. The costs that SWEPCO incurred during the test year under the Cajun contract continue to be properly recovered in base rates.
171. The cost of energy incurred under SWEPCO's wind-energy contracts has been collected through SWEPCO's fuel factor and reconciled as energy purchases since their inception, starting with Docket No. 40443 for the Majestic renewable energy purchase agreements.
172. According to the SPP planning criteria, the amount of capacity that may be accredited to a renewable resource is determined by a set of formulas using the historical output of that particular facility and updated over time.
173. The Commission should continue to account for the costs incurred under these wind contracts as energy.

Affiliate Expense

174. SWEPCO incurred a total of \$87,634,578 in adjusted total-company test-year affiliate charges: \$85,227,881 in charges from AEP Service Company and \$2,406,697 from other affiliates.
175. Commission Staff proposed an adjustment to SWEPCO's affiliate expense that SWEPCO did not oppose.
176. As adjusted by Commission Staff, SWEPCO's affiliate expenses are reasonable and necessary for each item or class of items, are allowable, are charged to SWEPCO at a price no higher than was charged by the supplying affiliate to other affiliates, and the rate charged was a reasonable approximation of the cost of providing the service.

Federal Income Tax Expense

177. SWEPCO's method of calculating its federal income tax expense is reasonable.
178. The amount of federal income tax SWEPCO included in its cost of service was calculated in accordance with the provisions of PURA §§ 36.059 and 36.060.

179. No party challenged the inclusion of federal income tax expense in SWEPCO's cost of service.

Ad Valorem Taxes

180. SWEPCO's requested effective ad valorem tax rate excludes Texas jurisdictional differences that would decrease the effective rate but includes Texas jurisdictional differences that increase the effective rate.
181. The effective ad valorem tax rate should be synchronized with the plant to which the rate is to be applied.
182. Including SWEPCO's proposed Texas jurisdictional plant differences related to depreciation and allowance for funds used during construction rates in the plant balance used to calculate ad valorem taxes requires that such jurisdictional differences be included in the determination of the effective ad valorem tax rate.
183. Including SWEPCO's proposed Texas jurisdictional plant differences related to depreciation and allowance for funds used during construction rates in the determination of the effective ad valorem tax rate does not result in other states subsidizing Texas customers.
184. The appropriate effective ad valorem tax rate that includes the Texas jurisdictional differences in the determination of the rate is 0.961262%.

Payroll Taxes

185. It is reasonable to synchronize payroll taxes with adjustments to SWEPCO's payroll expenses.
186. Incentive compensation is part of SWEPCO's payroll expenses.
187. A potential offset of incentive compensation with additional base pay by SWEPCO in the future is speculative.
188. Payroll tax on disallowed incentive compensation is properly borne by shareholders.
189. An adjustment of (\$258,162) to SWEPCO's payroll tax expense is appropriate. This synchronizes payroll taxes with the adjustments to payroll and incentive compensation expenses as recommended by Commission Staff.

Gross Margin Tax

190. SWEPCO calculates the Texas gross receipts (margin) tax amount using an effective rate derived from test-year payments and test-year Texas retail base and fuel revenues.
191. Revenue related taxes should be updated and synchronized with the final revenue requirement set in this case.

Allocated Transmission Expenses Related to Retail Behind-the-Meter Generation

192. To serve its retail and wholesale customers, SWEPCO purchases network integration transmission service (NITS) from SPP for the use of SPP's transmission system.
193. SPP charges for NITS pursuant to its FERC-approved OATT.
194. SWEPCO is obligated to pay SPP the charges SPP bills to SWEPCO pursuant to the SPP OATT for the provision of transmission services to SWEPCO.
195. SPP allocates the cost of using its transmission system to NITS customers (referred to as network customers in the OATT) based on the load-ratio share of each customer's monthly network load to the total system load at the time of the monthly system peak.
196. To obtain the data necessary to make this allocation, SPP requires network customers, such as SWEPCO, to submit their monthly network load data to SPP.
197. In October 2018, SWEPCO changed how it reports its monthly network load to SPP by adding load served by retail (BTMG).
198. In this context, BTMG refers to a generation unit that is behind the transmission system meter—not directly connected to the bulk transmission system—and is intended to serve all or part of the capacity or energy needs for the load behind the meter without withdrawing energy from the SPP transmission system.
199. Retail BTMG (in contrast to wholesale BTMG) is on-site generation operated by a retail end-use customer to serve its own local load requirements. Retail BTMG may be large scale, such as an industrial customer with a cogeneration facility, or small scale, such as a residential rooftop solar facility.

200. When retail BTMG is excluded from a network customer's monthly load report, it is reported on a *net* basis, whereas when retail BTMG is included, it is reported on a *gross* basis.
201. SPP provided educational information to its stakeholders, including SWEPCO, clarifying that FERC policy and the SPP OATT do not exclude or net BTMG from the network load calculation.
202. At this time, SWEPCO is only reporting the retail BTMG load of one customer, Eastman, which is located in SWEPCO's Texas service area.
203. Eastman operates an on-site cogeneration facility that generates approximately 150 MW of power to supply the full =load requirements of Eastman's operations. Eastman is a *qualifying facility* under the Public Utility Regulatory Policies Act of 1978.
204. During scheduled maintenance outages and forced or unscheduled outages when Eastman's generation is not operating, Eastman purchases standby electricity service from SWEPCO under SWEPCO's supplementary, backup, maintenance and as-available power service tariff. Eastman coordinates routine maintenance outages with SWEPCO to avoid system peaks.
205. Due to the configuration of Eastman's campus and BTMG, Eastman uses a SWEPCO-owned transmission line to serve all the load at its campus, but its use of the line is incidental and is not imposing new costs on SWEPCO's system.
206. During the test year, the network load that SWEPCO reported to SPP included 146 MW of load served by Eastman's BTMG. The higher reported network load resulted in SPP allocating a higher share of its transmission system costs to SWEPCO, which was reflected in SWEPCO's NITS charges in the test year.
207. There is a lack of consensus among SPP and its network customers regarding how to report retail BTMG load to SPP under the OATT.
208. Determining whether SWEPCO's NITS charges are pursuant to the OATT necessarily requires an interpretation of the OATT.
209. DELETED.

- 210. DELETED.
- 211. DELETED.
- 212. DELETED.
- 213. The NITS charges are part of SWEPCO's overall transmission costs, which SWEPCO allocates jurisdictionally among Texas, Arkansas, and Louisiana.
- 214. SWEPCO did not identify the increase in NITS charges attributable to reporting Eastman's BTMG load.
- 215. To recover the additional cost, SWEPCO proposed to change how it allocates its transmission costs by imputing Eastman's BTMG load to the Texas jurisdiction for jurisdictional allocation and to the large lighting and power-transmission (LLP-T) class for class allocation.
- 216. Adding Eastman's BTMG load to the Texas jurisdiction would increase Texas's share of SWEPCO's transmission costs by \$5.7 million, with corresponding reductions to the Arkansas and Louisiana jurisdictions.
- 217. Adding Eastman's BTMG load to the LLP-T class would have a larger impact, increasing that class's share of SWEPCO's transmission costs by \$7.5 million, with corresponding reductions to the remainder of SWEPCO's classes.
- 218. Adjusting the jurisdictional and class allocators for SWEPCO's overall transmission costs results in a shift of not just the SPP-related costs, but also the non-SPP-related costs.
- 219. SWEPCO did not explain why adjusting the allocations was the appropriate method to recover its increased NITS charges, or why reporting Eastman's BTMG load would impact non-SPP-related costs.
- 220. SWEPCO has 187 retail BTMG customers in Texas, including Eastman. Of these customers, at least three have cogeneration facilities (including Eastman) and the rest are commercial or residential solar facilities.

221. SWEPCO has retail BTMG customers in Arkansas and Louisiana, including at least one industrial retail BTMG customer (a paper mill) in Arkansas, and solar retail BTMG customers in both Arkansas and Louisiana.
222. Adding retail BTMG load solely to Texas likely results in the Texas jurisdiction receiving a higher allocation of SWEPCO's transmission costs than if SWEPCO had treated each jurisdiction consistently. This inconsistency is not attributable to SPP requiring network customers to report retail BTMG load, as SWEPCO presented evidence that all retail BTMG load should be reported.
223. SWEPCO's decision to increase the Texas jurisdictional allocator, but not the Arkansas and Louisiana jurisdictional allocators, is unreasonable and results in unreasonably discriminatory rates for Texas customers.
224. SWEPCO's corresponding change to the LLP-T class allocator is unreasonable and results in unreasonably discriminatory rates among SWEPCO's Texas customers.
225. SWEPCO's proposals to allocate transmission costs at both the jurisdictional and class levels by adding Eastman's BTMG load to the Texas jurisdiction and LLP-T class, respectively, are not reasonable, necessary, and non-discriminatory.
226. Eastman's BTMG load should be removed when performing the jurisdictional and class allocations of transmission costs.

Billing Determinants

227. The Commission's RFP accepts the use of estimated billing units.
228. SWEPCO used estimated billing determinants to address potential customer migration among rate classes between rate cases.
229. SWEPCO's initial filing included pro forma adjustments to the test-year billing determinants for all of the known and measurable items at the time this case was filed.
230. The ongoing effects, if any, of the COVID-19 pandemic on SWEPCO's billing determinants are not known and measurable and do not reflect conditions that are likely to prevail when the rates approved in this case are in effect.

231. ETSWD's proposal that SWEPCO should update its class-cost-of-service study (CCOSS) to incorporate new data and account for the enduring work-from-home shift and other effects of COVID-19 is not reasonable because the effects of COVID-19 are not known and measurable.
232. ETSWD's alternative proposal that the Commission instruct SWEPCO to recalculate and adjust its CCOSS using the data provided in SWEPCO's response to ETSWD request for information 3-1 also is not reasonable because the effects of COVID-19 are not known and measurable.
233. A pro forma adjustment to billing determinants should not be used to address a temporary event, because a pro forma adjustment is intended to ensure that test-year data better represents a utility's ongoing operations.
234. Customers who permanently left SWEPCO during the test year should be removed from SWEPCO's proposed billing determinants.
235. Except in an extraordinary event not present in this case, a pro forma adjustment to remove a customer that permanently left SWEPCO after the close of the test year should not be made because that event was not known or measurable during the test year.
236. SWEPCO's adjusted test-year billing determinants are reasonable and should be used in designing rates resulting from this case.

Functionalization and Cost Allocation

237. The allocation methodologies and processes used in SWEPCO's jurisdictional cost of service study and CCOSS reflect criteria generally used to determine the appropriateness of allocation methodologies.
238. The allocation methodologies and processes used in SWEPCO's jurisdictional cost of service study and CCOSS are consistent with the development of the jurisdictional cost of service study and CCOSS ordered by the Commission in Docket No. 46449 and with the base rates approved by the Commission in that docket and updated in SWEPCO's related compliance filing in Docket No. 48233.

Jurisdictional Allocation

- 239. Until this rate case, SWEPCO has not proposed to include the self-served load of any retail customer in allocating transmission costs in any of its jurisdictions.
- 240. SWEPCO's proposal to increase the allocation to Texas customers by \$5.7 million through the inclusion of the self-served load of a single customer is unreasonable.
- 241. The jurisdictional allocation of transmission costs to Texas retail customers should be established by using the actual load served by SWEPCO in each of its jurisdictions.
- 242. SWEPCO's allocation of Eastman's load served by its retail BTMG should be removed from the jurisdictional cost of service study.
- 243. SWEPCO appropriately removed the allocation of certain distribution investments from the wholesale class.

Class Allocation

- 244. SWEPCO corrected its CCROSS in rebuttal testimony to use a system-load factor based on the single annual coincident peak in the average and excess demand four-coincident peak methodology.
- 245. The use of the single annual coincident peak in calculating the system load factor is consistent with Commission precedent and cost causation.
- 246. SWEPCO properly accounted for customer prepayments in its rebuttal CCROSS.
- 247. SWEPCO appropriately does not allocate major-account representative costs to the residential class.
- 248. In its rebuttal CCROSS, SWEPCO appropriately corrected an error regarding its allocation of line-transformer costs.
- 249. SWEPCO's correction to the line-transformer allocation is not contrary to the Commission's decision in Docket No. 46449.
- 250. Commission Staff's proposal for a four-year phase-in of rate increases to move all classes to their relative rate of return ignores that customers' consumption patterns change

year-to-year and would cause some classes to incur significant rate increases each year for four years.

251. DELETED.

252. Three customer classes historically have been well below their relative rates of return as shown though SWEPCO's CCOSS, including its rebuttal CCOSS: the cotton gin class, the oilfield secondary class, and the public street and highway lighting class.

253. It is appropriate to require SWEPCO to provide direct testimony in its next base-rate case addressing why these three classes continue to be well below unity and address whether there are measures that can be taken in the class allocation (or rate design) process to address this situation, other than simply applying gradualism.

254. Based on the evidence in this case, SWEPCO's proposed class allocation to address classes that are not at a unitary relative rate of return is reasonable.

255. None of the \$5.7 million in transmission costs SWEPCO allocated to the Texas retail jurisdiction and in its CCOSS through its retail BTMG proposal should be allocated to any Texas retail customers.

Municipal Franchise Fees

256. SWEPCO develops the effective rate for municipal franchise fees based on test year actual municipal franchise taxes paid, less the amount in excess of the base amount and test year actual kWh sales.

257. SWEPCO applies the effective rate for municipal franchise fees to the test-year-adjusted kWh sales to determine the pro forma amount to include in SWEPCO's cost of service.

258. SWEPCO's allocation of municipal franchise fees was not contested by any party and is reasonable.

Revenue Distribution

259. The class revenue distribution is the rate design mechanism by which a utility's approved annual revenue requirement is assigned to the customer classes.

260. The revenue distribution also determines the revenue requirement targets for each class.

261. The percent increase in base rates for each class is based on its revenue deficiency as determined by the CCOSS.
262. The revenue deficiency determines the revenue requirement needed to bring each class to an equalized return.
263. The revenue requirement at an equalized return is the amount of revenue needed from each class to recover the full costs of serving that customer class.
264. The equalized revenue requirement and revenue change based on that requirement is the starting place for the revenue distribution. Other factors may also be taken into consideration such as customer migration, and a potential need to moderate a rate increase through rate gradualism.
265. SWEPCO's proposed rebuttal-revenue distribution moves all customer classes closer to cost of service.
266. All present base-rate-related revenues, inclusive of TCRF and DCRF revenues, are the appropriate starting point for evaluating any rate increase.
267. In Docket No. 46447, SWEPCO was required to present its rate change request in this case such that its then-present revenues show the total present revenues inclusive of the TCRF and DCRF revenues.

Rate Moderation/Gradualism

268. All parties to this case agree that some form and level of rate moderation should be applied to the revenue distribution.
269. The design of rates within each rate schedule should be cost-based and informed by the results of the CCOSS, subject to gradualism.
270. Gradualism and rate moderation are appropriate exceptions to this requirement when a class's proposed rate increase leads to *rate shock*.
271. A proposed rate increase of 43% or less in any one class is an appropriate upper percentage to apply in this case for the gradualism or rate moderation evaluation.

- 272. SWEPCO's approach of grouping major rate classes for purposes of implementing the revenue distribution was approved by the Commission in SWEPCO's two most recent base-rate proceedings, Docket Nos. 40443 and 46449.
- 273. SWEPCO's proposed rate moderation methodology, which reduces the subsidization among individual rate classes, is reasonable and should be adopted.
- 274. Commission Staff's proposed four-year phased-in method to move all customers to unity does not account for the fact that customers' consumption patterns change year-to-year and would result in significant rate increases every year over the four-year phased-in period to some customers.
- 275. Commission Staff's proposed four-year phased-in method should not be accepted.

Rate Design and Tariff Changes

- 276. In general, SWEPCO's proposed rate design retains the rate structures and relationships approved by the Commission in SWEPCO's two most recent base rate proceedings, Docket Nos. 40443 and 46449.
- 277. SWEPCO's proposed rate design provides a reasonable basis for establishing rates in this proceeding.
- 278. SWEPCO has not met its burden of proof to justify removing the 50 kilowatt (kW) maximum demand cap in the GS rate schedule.
- 279. SWEPCO should not be required to revise its rate schedules in its next rate case to preclude the potential for customer migration between rate schedules or between any other customer classification.
- 280. SWEPCO should be required to address the customer migration issue in more detail in its next base-rate-case filing, including which classes are structured to allow migration among classes even if customers' loads or operations do not change, why customers migrate among classes, and how SWEPCO adjusts, or estimates, its billing determinants to account for customer migration among rate classes between base-rate cases.
- 281. SWEPCO has not explained or justified why it is appropriate, in this case, to collect fixed demand-related costs through energy charges in the large power secondary class.

282. SWEPCO offers a rate option for cotton gin customers that allows the application of the minimum monthly bill only during the ginning season as defined as November through February.
283. In SWEPCO's prior fuel reconciliation proceeding, Docket No. 47553, SWEPCO agreed to impute the value of renewable energy credits and treat them as a base-rate expense.
284. SWEPCO should revise the renewable energy credit rider to allow a customer to link its renewable energy credits to specific renewable resources.
285. SWEPCO must implement a renewable energy credit opt-out tariff that would refund renewable energy credit costs to transmission-voltage customers who have opted out.
286. The renewable energy credit opt-out charge should be calculated based on an energy allocator for renewable energy credit costs, consistent with how renewable energy credits are generated and set at a credit of 0.0069 cents per kWh for the Commercial Class and a credit of 0.0066 cents per kWh for the Industrial Class.
287. SWEPCO did not perform or provide a study justifying its proposal to increase the reactive-demand charge by 29.4%.
288. SWEPCO has not met its burden of demonstrating that there is a cost basis for increasing the reactive-demand charge in the large lighting and power (LLP) rate schedule.
289. Under SWEPCO's residential plug-in electric vehicles rider, an installed sub-meter separately measures plug-in electric-vehicle kWh usage while a standard meter measures total residence kWh usage.
290. SWEPCO has met its burden of proof regarding the residential plug-in electric-vehicles rider.
291. ETSWD's request that the Commission direct SWEPCO to implement a retail-choice pilot project is moot based on the Commission's denial of ETSWD's request for a declaratory ruling on this matter in Docket No. 51257.

Transmission Rate for Retail Behind-the-Meter Generation

292. Because SWEPCO's proposal to allocate to any customer or class the SPP charges related to Eastman's load served by its retail BTMG should be rejected, it is not appropriate for SWEPCO to implement a synchronous self-generation load rate schedule or rate.

Baselines for Cost-Recovery Factors

293. A TCRF is a rate mechanism that allows an electric utility outside of the Electric Reliability Council of Texas region to periodically update its recovery of transmission costs.
294. SWEPCO is eligible under 16 TAC § 25.239 to have a TCRF.
295. TCRF baseline values should be set during the compliance phase of this docket, after the Commission makes final rulings on the various contested issues that may affect this calculation.
296. A DCRF is a rate mechanism that allows an electric utility to periodically adjust its rates for changes in certain distribution costs.
297. The Commission has adopted 16 TAC § 25.243 to implement PURA § 36.210. The DCRF rule allows an electric utility not offering customer choice (SWEPCO) to file an application for a DCRF at any time other than April and May.
298. DCRF baseline values should be set during the compliance phase of this docket, after the Commission makes final rulings on the various contested issues that may affect this calculation.
299. A generation cost recovery rider is a rate mechanism authorized under PURA § 32.213 that allows an electric utility to recover its investment in a power generation facility outside of a base-rate proceeding.
300. The baseline values for a subsequent implementation of the generation cost recovery rider should be established during the compliance phase of this docket, after the Commission makes final rulings on the various contested issues that may affect this calculation.

Rate-Case Expenses

301. SWEPCO and CARD sought to recover a total of \$3,769,007 in rate-case expenses for this docket as well as Docket Nos. 49042, 46449, 40443, 47141, and 50997, consisting of

\$2,740,315 for SWEPCO's own rate-case expenses and \$1,028,692 in rate-case expenses paid or to be paid by SWEPCO to CARD for its participation in these dockets and reflected on SWEPCO's and CARD's rate-case expense reports.

302. The Commission's order in Docket No. 47141 authorized CARD to collect up to an additional \$2,500 in rate-case expenses in that docket after April 13, 2020.
303. In this docket, CARD originally requested to recover \$6,321 in rate-case expenses incurred in Docket No. 47141 after April 13, 2020.
304. CARD's request to recover \$6,321 for Docket No. 47141 rate-case expenses should be reduced to \$2,500.
305. SWEPCO seeks to recover \$65,167 in rate-case expenses in Docket Nos. 51415 and 40443 that include rates in excess of \$550 per hour for two outside attorneys in those dockets.
306. The Office of the Attorney General issued a memorandum in 2016 that limited the maximum outside counsel per-hour fee to \$525 but allowed the Deputy Attorney General to authorize a higher fee. This memorandum was addressed to, among others, state agencies and addressed "Outside Counsel Contract Rules and Templates."
307. The Office of the Attorney General issued a follow-up memorandum, in 2019 that did not increase the \$525 per-hour fee cap. This follow-up memorandum also was directed to state agencies and addressed Outside Counsel Contract Rules and Templates.
308. SWEPCO did not meet its burden of proof to show that the nature, extent, and difficulty of the work performed by the attorneys who charged in excess of \$550 per hour justified hourly rates in excess of \$550 in this base-rate case.
309. The rates SWEPCO paid to outside attorneys in excess of \$550 per hour are excessive and not reasonable.
310. The fact that other entities may be willing to pay an attorney a rate in excess of \$550 per hour does not mean that the rate is reasonable and not excessive in the context of a Commission electric utility rate proceeding.
311. SWEPCO's request to recover \$65,167 in rate-case expenses related to outside attorney fees billed in excess of \$550 per hour should be denied.

- 312. The total amount of rate-case expenses that SWEPCO and CARD should recover in this docket is \$3,700,021.
- 313. SWEPCO should reimburse CARD for its requested rate-case expenses, except that CARD's recovery related for Docket No. 47141 is \$2,500, not \$6,321.
- 314. It is reasonable for SWEPCO to recover the \$3,700,021 in rate-case expenses authorized in this docket through its proposed rate case surcharge rider.
- 315. Any trailing rate-case expenses related to Docket No. 51415 that are incurred after the dates of the rate-case expenses addressed in the final reports filed in this docket should be recorded as a regulatory asset and deferred for consideration in a future SWEPCO docket.
- 315A. The Office of Policy and Docket Management (OPDM) filed a memo on October 14, 2021, requesting SWEPCO to identify or file evidence in the record reflecting the affidavit or testimony of a licensed attorney supporting the reasonableness of \$2,740,315 for SWEPCO's own rate-case expenses incurred through May 2021.
- 315B. On October 22, 2021, SWEPCO filed the affidavit of Melissa A. Gage, attesting to the reasonableness of SWEPCO's rate-case expenses, and a motion to admit the filing as evidence.
- 315C. On November 2, 2021, the Commission ALJ filed Order No. 2 admitting the affidavit of Melissa A. Gage into evidence.

Other Issues

- 316. It is uncontested and reasonable that the final approved return on equity should be included in the factoring-rate calculation to synchronize factoring expense properly to the approved revenue requirement.
- 317. Commission Staff's proposed adjustments of (\$1,164,427) to remove carrying charges paid by SWEPCO associated with affiliate or shared assets and (\$530,384) to remove carrying charges SWEPCO received from its affiliates is uncontested and reasonable.
- 318. Commission Staff's adjustment to update the customer deposit interest amount to incorporate the Commission-approved 2021 interest rate is uncontested and reasonable. In

this case that is 0.61%, which results in an adjustment of (\$1,041,156) to SWEPCO's request.

319. In accordance with the Commission's decisions in Docket Nos. 40443 and 46449, SWEPCO removed supplement executive retirement plan expense from its requested cost of service, which is reasonable.
320. In accordance with the Commission's decisions in Docket Nos. 40443 and 46449, Commission Staff recommended an adjustment for executive perquisites. Based on Commission Staff's adjustment, SWEPCO agreed to remove \$20,595 from its revenue requirement related to executive perquisites. This adjustment is reasonable.
321. SWEPCO has announced that the Welsh plant will cease coal-fired operations in 2028 in light of the Coal Ash Combustion Residual Rule and the Effluent Limitations Guidelines.
322. SWEPCO has not yet determined whether natural gas conversion of the Welsh plant is in the customers' best interest.
323. If such a conversion to natural gas were to occur in the future, SWEPCO will request Commission authorization to include the costs associated with that conversion in customer rates in a future proceeding.
324. SWEPCO has not included any construction work in progress in its requested rate base.
325. RFP schedule E-4 contains the calculation of SWEPCO's cash working-capital allowance included in rate base.
326. The lead-lag study used in this proceeding is the one approved in SWEPCO's last base-rate case, Docket No. 46449.
327. The lead-lag study conducted by SWEPCO considered the actual operations of SWEPCO, adjusted for known and measurable changes, and is consistent with 16 TAC § 25.231(c)(2)(B)(iii).
328. At the time the current proceeding was filed, less than five years had passed since SWEPCO's last lead-lag study. By using the last approved study, SWEPCO estimates that it saved around \$75,000 in rate-case expenses.

329. It is uncontested and reasonable that cash working capital should be updated and synchronized with the final revenue requirement.
330. Commission Staff's adjustment of (\$46,306) to administrative and general O&M expense, specifically for regulatory commission expense, is not contested and is reasonable.
331. SWEPCO's federal income taxes were calculated consistent with PURA § 36.059 including treatment of tax savings derived from liberalized depreciation and amortization, investment tax credit, or similar methods.
332. SWEPCO's expenditures for advertising, contributions, memberships, and donations included in its cost of service meet the standard and thresholds set forth in 16 TAC § 25.231(b)(1)-(2).
333. SWEPCO uses advertising to convey information regarding safety and reliability to its customers and to support local initiatives.
334. SWEPCO did not include any prohibited advertising expenses in its request.
335. SWEPCO makes charitable contributions toward education, community service, and economic development in and for the benefit of the communities in which it operates. These costs are reasonable and consistent with the Commission's requirements and thresholds for recovery
336. SWEPCO membership expenses are reasonable and comply with the Commission's standards.
337. No party raised an issue with respect to SWEPCO's competitive affiliates.
338. SWEPCO is not seeking to include in rates any costs previously deferred by a Commission order.
339. SWEPCO's request to defer the portion of its ongoing net SPP open access transmission tariff bill that is above or below the net-test-year level is not reasonable and should be denied.
340. SWEPCO proposed an optional residential time-of-use rate schedule as a pilot available to residential customers.

341. SWEPCO proposed a commercial time-of-use rate schedule for commercial loads of 100 kW or greater.
342. The pilot projects will gauge interest and utilization of the time-of-use format by customers that do not qualify for SWEPCO's off-peak rider for the lighting and power, LLP, and metal melting service classes. Participating customers can manage certain energy costs by shifting energy consumption to off-peak periods.
343. The proposed time-of-use rate schedule and design is reasonable and appropriate under 16 TAC § 25.234.
344. SWEPCO proposes to update its economic development rider.
345. SWEPCO's proposed tariff revisions to attract loads from a variety of businesses with different load requirements in order to spur economic growth in its service territory and provide long-term benefits to SWEPCO customers are reasonable and appropriate.
346. The proposed tariff revisions are consistent with the Commission's standards including 16 TAC § 25.234.
347. SWEPCO is not filing a fuel reconciliation proceeding in this docket; therefore, the schedules dealing with fuel reconciliation proceedings are not applicable. Accordingly, SWEPCO's requested waiver of the portions of the RFP that request information related to fuel reconciliation proceedings should be granted.
348. SWEPCO obtained authorization in Docket No. 50917 to waive the requirement that it file an RFP Schedule S in this base-rate case.
349. Ordering Paragraph 10 of the order on rehearing in Docket No. 46449 states, "[t]he regulatory treatment of any excess deferred taxes resulting from the reduction in the federal-income-tax rate will be addressed in SWEPCO's next base-rate case." The treatment of SWEPCO's excess deferred taxes has been addressed in this case.

III. Conclusions of Law

The Commission adopts the following conclusions of law.

1. SWEPCO is subject to PURA.

2. SWEPCO is a public utility as that term is defined in PURA § 11.004(1) and an electric utility as that term is defined in PURA § 31.002(6)
3. The Commission exercises regulatory authority over SWEPCO, and jurisdiction over the subject matter of this application under PURA §§ 14.001, 32.001, 32.101, 33.002, 33.051, and 36.001-112.
4. The Commission's jurisdiction to establish rates under PURA §§ 36.003-.004, 36.051-.065, 36.108(c), and 36.111 extends beyond the date a proposed rate is suspended.
5. SOAH has jurisdiction over matters related to the conduct of the hearing and the preparation of a proposal for decision in this docket, under PURA § 14.053 and Tex. Gov't. Code § 2003.049.
6. This docket was processed in accordance with the requirements of PURA and the Texas Administrative Procedure Act, Texas Government Code chapter 2001.
7. SWEPCO provided notice of its application in compliance with PURA § 36.103 and 16 TAC § 22.51(a).
8. Pursuant to PURA § 33.001, each municipality in SWEPCO's service area that has not ceded jurisdiction to the Commission has jurisdiction over SWEPCO's application, which seeks to change rates for the distribution services within each municipality.
9. Pursuant to PURA § 33.051, the Commission has jurisdiction over an appeal from a municipality's rate proceeding.
10. SWEPCO has the burden of proving that the rate change it is requesting is just and reasonable under PURA § 36.006.
11. In compliance with PURA § 36.051, SWEPCO's overall revenues approved in this proceeding permit SWEPCO a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.
12. Consistent with PURA § 36.053, the rates approved in this proceeding are based on original cost, less depreciation, of property used and useful to SWEPCO in providing service.

13. The rates approved in this proceeding are consistent with 16 TAC § 25.231(b)(1)(B), which states that depreciation expense based on original cost and computed on a straight-line basis as approved by the Commission shall be used; it also provides that other methods may be used when the Commission determines such depreciation methodology is a more equitable means of recovering the costs of plant.
14. The rates approved in this proceeding are consistent with 16 TAC § 25.231(c)(2)(A)(ii), which states that the reserve for depreciation is the accumulation of recognized allocations of original cost, representing the recovery of initial investment over the estimated useful life of the asset.
15. SWEPCO's short-term incentive compensation payments to collectively bargained employees should not be reduced to remove financially based short-term incentive compensation consistent with PURA § 14.006.
16. Upon completion of this base rate case under 16 TAC § 25.239(f), SWEPCO's TCRF should be set to zero.
17. The ROE and overall rate of return authorized in this proceeding are consistent with the requirements of PURA §§ 36.051 and 36.052.
18. The Commission has authority under PURA §§ 11.002, 14.001, 14.003, 14.154(a), 14.201, 36.003(a) to order SWEPCO to adopt the financial protections listed in findings of fact Nos. 108 and 109A.
19. Prudence is the exercise of that judgment and the choosing of one of that select range of options which a reasonable utility manager would exercise or choose in the same or similar circumstances given the information or alternatives available at the point in time such judgments is exercised or option is chosen. *Gulf States Util. Co. v. Public Util. Comm'n*, 841 S.W.2d 459, 476 (Tex. App—Austin 1992, writ denied).
20. There may be more than one prudent option within the range available to a utility in a given context. Any choice within the select range of reasonable options is prudent, and the Commission should not substitute its judgment for that of the utility. The reasonableness of an action or decision must be judged in light of the circumstances,

information, and available options existing at the time, without benefit of hindsight. Docket No. 40443, order on rehearing at 5 (citing *Nucor Steel v. Public Utility Commission of Texas*, 26 S.W.3d 742, 752 (Tex. App.—Austin 2000, pet. denied)).

21. A utility may demonstrate the prudence of its decision making through contemporaneous evidence. Alternatively, the utility may obtain an independent, retrospective analysis that demonstrates that a reasonable utility manager, having investigated all relevant factors and alternatives, as they existed at the time the decision was made, would have found the utility's actual decision to be a reasonably prudent course. *Gulf States*, 841 S.W.2d at 476.
22. The utility does not enjoy a presumption that the expenditures reflected in its books have been prudently incurred merely by opening the books to inspection. But while the ultimate burden of persuasion on the issue of prudence remains with the utility, its initial burden of production (to come forward with evidence) is shifted to opponents if the utility establishes a prima facie case of prudence. This is a "Commission-made" rule, intended "to aid in the trial of utility prudence reviews" and facilitate "efficient hearings," allowing the utility to establish prudence "by introducing evidence that is comprehensive, but short of proof of the prudence of every bolt, washer, pipe hanger, cable tray, I-beam, or concrete pour." *Entergy Gulf States, Inc. v. Public Util. Comm 'n*, 112 S.W.3d 208, 214-15, and n.5 (Tex. App.—Austin 2003, pet. denied).
23. The rate year is defined in 16 TAC § 25.5(101) as the 12-month period beginning with the first date that rates become effective.
24. The rates approved by this order are effective for consumption on and after March 18, 2021 in accordance with PURA § 36.211(b) and 16 TAC § 25.246(d)(1).
25. The Commission's cost of service rule permits, in accordance with 16 TAC § 25.231(c)(2)(F)(iii), post-test year adjustments for known and measurable decreases to test-year data under conditions that include a plant being removed from service, mothballed, sold, or removed from the electric utility's books prior to the rate year.
26. The Commission has discretion in accordance with 16 TAC § 25.3 to make exceptions to its substantive rules applicable to electric-service providers, including its cost-of-service rule, for good cause.

27. While the Commission's cost of service rule, 16 TAC § 25.231(b)(1)(B), generally requires that depreciation expense shall be computed on a straight-line basis, other methods may be used when it is determined that such depreciation methodology is a more equitable means of recovering the cost of the plant.
28. PURA § 36.064 requires SWEPCO to prove that: (1) its proposed self-insurance reserve coverage is in the public interest; (2) the plan, considering all costs, would be a lower cost alternative to purchasing commercial insurance; and (3) customers would receive the benefits of the savings.
29. For SWEPCO to establish under 16 TAC § 25.231(b)(1)(G) that its self-insurance plan is in the public interest, SWEPCO must present a cost benefit analysis performed by a qualified independent insurance consultant who demonstrates that, with consideration of all costs, self-insurance is a lower-cost alternative than commercial insurance and the customers will receive the benefits of the self-insurance plan. Further, the cost benefit analysis shall present a detailed analysis of the appropriate limits of self-insurance, an analysis of the appropriate annual accruals to build a reserve account for self-insurance, and the level at which further accruals should be decreased or terminated.
30. SWEPCO met its burden of proof under PURA § 36.064(b) and 16 TAC § 25.231(b)(1)(G) to show that its proposed self-insurance reserve would be in the public interest.
31. Affiliate expenses to be included in SWEPCO's rates must meet the standards articulated in PURA §§ 36.051 and 36.058 and in *Railroad Commission of Texas v. Rio Grande Valley Gas Co.*, 683 S.W.2d 783 (Tex. App.—Austin 1984, no writ).
32. Investor-owned utilities may include in rate base a reasonable allowance for cash working capital as determined by a lead-lag study conducted in accordance with 16 TAC § 25.231(c)(2)(B)(iii)(IV).
33. A lead-lag study in compliance with 16 TAC § 25.231(c)(2)(B)(iii)(IV) and (V) is performed to determine the reasonableness of a cash working capital allowance.
34. DELETED.
35. DELETED.

36. DELETED.
37. DELETED.
38. A transmission-voltage customer that submits an opt-out notice to the Commission is not required under 16 TAC § 25.173(j) to pay costs incurred by the utility to acquire renewable energy credits.
39. Utilities seeking recovery or municipalities seeking reimbursement of renewable energy credits have the burden to prove the reasonableness of such expenses by a preponderance of the evidence to include those amounts in customers' rates.
40. Except for charges by attorneys and consultants in excess of \$550 per hour and the \$2,500 cap on CARD's expenses in Docket No. 47141, the rate-case expenses SWEPCO is seeking to recover in this case for itself and CARD are recoverable pursuant to PURA § 36.061(b).
41. SWEPCO's rates, as approved in this proceeding, are just and reasonable in accordance with PURA § 36.003.

IV. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The proposal for decision, including findings of fact and conclusions of law is adopted to the extent provided in this Order.
2. SWEPCO's application is granted to the extent consistent with this Order.
3. The Commission grants SWEPCO a good cause exception under 16 TAC § 25.3 to make post-test year adjustments to its rate base to reflect that Dolet Hills, the Oxbow investment, and DHLC will cease to provide service to SWEPCO's customers when the plant retires on December 31, 2021.
4. SWEPCO shall implement and adhere to the financial protections listed in finding of fact nos. 108 and 109A. No later than 90 days from the date of this Order, SWEPCO shall have implemented, and be adhering to, all of those financial protections.

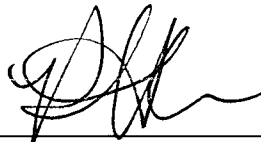
5. In its direct testimony in its next base-rate case, SWEPCO shall address why some of its customer classes, including the cotton gin class, the oilfield secondary class, and the public street and highway lighting class, historically are far below their relative rates of return produced by SWEPCO's CCOS, and whether adjustments, other than gradualism, can and should be made to address this recurring situation.
6. In its direct testimony in its next base-rate case, SWEPCO shall address why customers can or should be allowed to migrate from class-to-class without experiencing a change in load or operations. In that testimony, SWEPCO should explain how it accounts for these future migrations through its adjusted billing determinants, and either justify its existing relatively open class structure or propose rate schedule revisions that more closely group similarly situated customers into rate schedules.
7. SWEPCO may recover its authorized rate-case expenses through its proposed rate case surcharge rider.
8. SWEPCO and CARD may seek to recover in a future proceeding any trailing rate-case expenses not already presented in their July 6, 2021 rate-case-expense reports for this case.
9. SWEPCO's TCRF and DCRF are set to zero at the conclusion of this base-rate case. The baseline values for SWEPCO's TCRF, DCRF, and generation cost recovery rider shall be developed and set during the compliance phase of this docket in *Compliance Tariff for Final Order in Docket No. 51415 (Application of Southwestern Electric Power Company for Authority to Change Rates)*, Control No. 53046.
10. Notwithstanding findings of fact nos. 80-83, SWEPCO is authorized to establish a regulatory asset for the return that would be associated with inclusion of SWEPCO's stand-alone NOLC ADFIT in the calculation of rate base, as well as the net excess amortization of excess ADFIT in the calculation of the cost of service, with an effective date equal to that of the rates being implemented in this proceeding—March 18, 2021. SWEPCO will be eligible to request recovery of that regulatory asset once it receives an Internal Revenue Service determination that removal of the stand-alone NOLC ADFIT from the calculation of rate base constitutes a normalization violation. If the Internal

Revenue Service determines that such removal does not constitute a normalization violation, the regulatory asset will be written-off and not recovered from customers.

11. As part of its annual filing required under 16 TAC § 25.97(f), SWEPCO must include in its report information on each occurrence of an outage related to vegetation contact with utility infrastructure and identify the length of time since that line received vegetation management treatment. SWEPCO must also provide a list of every distribution line that has not received vegetation management treatment in the previous four years.
12. SWEPCO shall file tariffs consistent with this Order within 20 days of the date of this Order in Compliance Tariff for Final Order in Docket No. 51415 (Application of Southwestern Electric Power Company for Authority to Change Rates), Control No. 53046. No later than ten days after the date of the tariff filings, Commission Staff shall file its comments recommending approval, modification, or rejection of the individual sheets of the tariff proposal. Responses to Commission Staff's recommendation shall be filed no later than 15 days after the filing of the tariff. The Commission shall by letter approve, modify, or reject each tariff sheet, effective the date of the letter.
13. The tariff sheets shall be deemed approved and shall become effective on the expiration of 20 days from the date of filing, in the absence of written notification of modification or rejection by the Commission. If any sheets are modified or rejected, SWEPCO shall file proposed revisions of those sheets in accordance with the Commission's letter within ten days of the date of that letter, and the review procedure set out above shall apply to the revised sheets.
14. Copies of all tariff-related filings shall be served on all parties of record.
15. The Commission denies all other motions and any other requests for general or specific relief, if not expressly granted.

Signed at Austin, Texas the 14th day of January 2022.

PUBLIC UTILITY COMMISSION OF TEXAS



PETER M. LAKE, CHAIRMAN



WILL MCADAMS, COMMISSIONER



JIMMY GLOTFELTY, COMMISSIONER